

WELLINGTON CITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

WELLINGTON CITY
BASIC FINANCIAL STATEMENTS
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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members of the City Council
Wellington City
Wellington, Utah 84542

Ladies/Gentlemen:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Wellington City, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Wellington City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

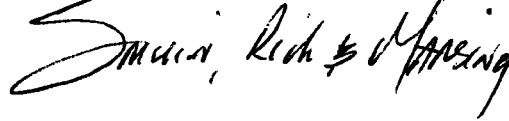
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Wellington City, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Governmental Auditing Standards, we have also issued our report dated November 13, 2006, on our consideration of Wellington City's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information as listed in the table of contents, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Wellington City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements of Wellington City. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SMUIN, RICH & MARSING

A handwritten signature in cursive script that reads "Smuin, Rich & Marsing". The signature is written in dark ink and is positioned below the printed name of the firm.

Price, Utah

November 13, 2006

**WELLINGTON CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006**

Our discussion and analysis of Wellington City's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2006.

FINANCIAL HIGHLIGHTS

- ❖ The City's net assets increased \$170,064 as a result of this year's operations. Net assets of our governmental activities increased by \$14,118, which is a .34 percent increase over last years and our net assets of our business-type activities increased by \$155,946, which is a 7.76 percent increase over last year.
- ❖ Total expenses of \$878,675 were \$568,776 more than the direct revenues received of \$309,899 for governmental activities.
- ❖ In the City's business-type activities, revenues of \$818,350 were \$70,897 more than the expenses of \$747,453 for these types of activities.
- ❖ Property Tax revenue for the year ended June 30, 2006 was \$108,245, Sales and Franchise Tax was \$544,453. Property Tax revenue decrease by \$874, while Sales and Franchise Tax increased by \$132,663 from the previous fiscal year.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The financial reports: Statement of Net Assets and the Statement of Activities (on pages 11-12) provide information about the activities of the City as a whole and present a long-term view of the City's finances. Fund financial statements start on page 13. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most financially significant funds.

REPORTING THE CITY AS A WHOLE

Our analysis of the City as a whole begins on page 11. The Statement of Net Assets and Statement of Activities report information about the City as a whole and about its activities in a way that helps determine if the City is better or worse off as a result of the year's activities. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's *net assets* and changes in them. Net assets equal the difference between assets and liabilities. This is one way to measure the City's financial position. Increases or decreases in the City's net assets are one indicator of whether the financial position of the City is improving or deteriorating. You will need to consider other non-financial factors, such as changes in the City's property tax base and the condition of the City's roads, water lines, sewer lines, drainage systems, and other capital assets to assess the overall health of the City.

REPORTING THE CITY AS A WHOLE (Continued)

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

Governmental activities - Most of the City's basic services are reported here, including the general and administration cost, contributions to other agencies, police, fire, public works, parks department and interest on long-term debt. Property taxes, franchise fees, fines, sales taxes and state and federal grants finance most of these activities.

Business-type activities - The City charges a fee to customers to help cover all or most of the cost of services it provides. The City's Municipal Building Authority, water and sewer, irrigation, garbage and recreational services are reported here.

Reporting the City's Most Significant Funds

Our analysis of the City's major funds begins on page 13. The fund financial statements begin on page 13 and provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law and by bond covenants. The City established other funds to help it control and manage money for particular purposes (special revenue and capital projects payments) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds – *governmental and proprietary* – use different accounting approaches.

Governmental funds—Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship or differences between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in a reconciliation at the bottom of the fund financial statements or on a separate statement.

Proprietary funds – When the City charges customers for the services it provides – to outside customers – these services are generally reported in proprietary funds. Proprietary funds are reported the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's Enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds.

The City as Trustee

The City has not acted in a trustee capacity for the year ended June 30, 2006.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector business. The City's Statement of Net Assets, which increased during the current calendar year, presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. The government-wide financial statements include the City's activity and those of component units (Municipal Building Authority and Redevelopment Agency). The analysis shown below, focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities.

Table 1
Net Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 559,441	\$ 466,776	\$ 56,666	\$ 69,678	\$ 616,107	\$ 536,454
Capital assets	5,432,137	5,605,059	5,162,188	4,968,137	10,594,325	10,573,196
Total assets	\$ 5,991,578	\$ 6,071,835	\$ 5,218,854	\$ 5,037,815	\$ 11,210,432	\$ 11,109,650
Long-term liabilities	\$ 1,680,823	\$ 1,779,219	\$ 2,693,606	\$ 2,593,887	\$ 4,374,429	\$ 4,373,106
Other liabilities	142,311	138,290	359,218	430,037	501,529	568,327
Total liabilities	\$ 1,823,134	\$ 1,917,509	\$ 3,052,824	\$ 3,023,924	\$ 4,875,958	\$ 4,941,433
Net assets:						
Invested in capital assets, net of debt	\$ 3,764,227	\$ 3,838,466	\$ 2,479,391	\$ 2,380,875	\$ 6,243,618	\$ 6,219,341
Restricted for:						
Class "C" road	44,073	55,097			44,073	55,097
Cemetery	120	1,514			120	1,514
Redevelopment agency	7,559	7,559			7,559	7,559
Debt Service	226,245		3,972	3,807	230,217	3,807
Capital Projects	16,412				16,412	
Unrestricted	109,808	251,690	(317,333)	(374,598)	(207,525)	(122,908)
Total net assets	\$ 4,168,444	\$ 4,154,326	\$ 2,166,030	\$ 2,010,084	\$ 6,334,474	\$ 6,164,410

Net Assets of the City's governmental activities increased by .34 percent (\$4,154,326 compared to \$4,168,444). *Unrestricted* net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements—is \$109,808 at the end of June 30, 2006.

Government-wide financial statements (Continued)

Net Assets of our business-type activities increased 7.76 percent (\$2,010,084 compared to \$2,166,030). Unrestricted net assets for this group, amount to (\$317,333). If the City had unrestricted net assets they would be used to finance the continuing operations of the municipal building authority, water and sewer, irrigation, garbage and recreational service funds.

Table 2
Changes in Net Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Revenues						
Program Revenues:						
Charges for services	\$ 155,665	\$ 158,325	\$ 815,250	\$ 752,786	\$ 970,915	\$ 911,111
Operating grants and cont.	67,569	75,851			67,569	75,851
Capital grants and cont.	86,665	60,926	3,100	146,900	89,765	207,826
General Revenues:						
Property taxes	108,245	109,119			108,245	109,119
Sales and franchise taxes	544,453	411,790			544,453	411,790
Other general revenue	15,081	1,370	164	38,391	15,245	39,761
Total revenues	<u>\$ 977,678</u>	<u>\$ 817,381</u>	<u>\$ 818,514</u>	<u>\$ 938,077</u>	<u>\$ 1,796,192</u>	<u>\$ 1,755,458</u>
Program Expenses						
General government	\$ 234,928	\$ 231,932			\$ 234,928	\$ 231,932
Public safety	353,096	331,190			353,096	331,190
Highways and public improv.	204,651	197,348			204,651	197,348
Parks and recreation	49,787	33,798			49,787	33,798
Economic development		2,000				2,000
Capital outlay	1,669	1,144			1,669	1,144
Interest on long-term debt	34,544	37,794			34,544	37,794
Municipal building authority			\$ 92,788	\$ 75,229	92,788	75,229
Water and sewer			543,940	492,715	543,940	492,715
Irrigation			50,176	146,518	50,176	146,518
Sanitation			53,124	51,490	53,124	51,490
Recreation			7,425	7,183	7,425	7,183
Total expenses	<u>\$ 878,675</u>	<u>\$ 835,206</u>	<u>\$ 747,453</u>	<u>\$ 773,135</u>	<u>\$ 1,626,128</u>	<u>\$ 1,608,341</u>
Excess (deficiency) before transfers and special items	<u>\$ 99,003</u>	<u>\$ (17,825)</u>	<u>\$ 71,061</u>	<u>\$ 164,942</u>	<u>\$ 170,064</u>	<u>\$ 147,117</u>

Government-wide financial statements (Continued)

Table 2
(Continued)
Changes in Net Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Excess (deficiency) before transfers and special items	\$ 99,003	\$ (17,825)	\$ 71,061	\$ 164,942	\$ 170,064	\$ 147,117
Loss on sale of assets		(8,198)				(8,198)
Transfers in (out)	(84,885)	(4,000)	84,885	4,000		
Change in net assets	<u>\$ 14,118</u>	<u>\$ (30,023)</u>	<u>\$ 155,946</u>	<u>\$ 168,942</u>	<u>\$ 170,064</u>	<u>\$ 138,919</u>
Net Assets - beginning	\$ 4,154,326	\$ 4,184,349	\$ 2,010,084	\$ 1,841,142	\$ 6,164,410	\$ 6,025,491
Net Assets - ending	<u>4,168,444</u>	<u>4,154,326</u>	<u>2,166,030</u>	<u>2,010,084</u>	<u>6,334,474</u>	<u>6,164,410</u>
Change in net assets	<u>\$ 14,118</u>	<u>\$ (30,023)</u>	<u>\$ 155,946</u>	<u>\$ 168,942</u>	<u>\$ 170,064</u>	<u>\$ 138,919</u>

The City's operational goals for future years is to continue to strive to use the allotted funds in the best interest of the City and those who are served by the City's operations. As revenues increase, the funds will be used to make necessary improvements in government operations, road and recreation improvements, utility improvements and purchase of supplies and equipment that are appropriate and beneficial.

Governmental Activities

Revenues for the City's governmental type activities, increased \$160,297, a 19.61 percent increase. Total expenses using these funds increased \$116,156, an increase of 13.71 percent. The largest increase in revenue was in sales and franchise taxes compared with the prior years. The largest increase in expenditures occurred in transfers to other funds. The largest sources of funds are sales and franchise taxes and charges for services. These revenues, and other special grants, enabled the City the opportunity to purchase a variety of vehicles and equipment as well as other improvements. An overall increase in the revenues of approximately 19.61 percent compared to an increase of approximately 13.71 percent in expenditures has caused an increase in net assets for governmental activities of \$14,118 in the 2006 fiscal year.

The cost of all governmental activities this year was \$963,560. As shown in the Statement of Activities on page 12, sales and franchise tax revenue, government grants and property taxes paid for the majority of these activities.

Governmental Activities (Continued)

Class "C" road revenue of \$65,029 helped pay 31.78 percent of the Highway and public improvements costs. Overall, the City's governmental program revenues of \$309,899 paid 35.27 percent of the governmental activities expenditures.

Costs of the City are centered within several programs—General government, Public safety, Highways and public improvements, Parks and recreation, Community Economic Development, Capital outlay, and interest on long-term debt. The net cost of expenditures (over) specific program revenues shows the financial burden that utilizes the Property taxes, Sales and franchise taxes and government grants.

Business-type Activities

Program revenues of the City's business-type activities decreased 9.04 percent (\$899,686 compared to \$818,350) while expenses decreased 3.32 percent (\$773,135 compared to \$747,453). The major changes for the business-type activities, is a decrease in grant proceeds in comparison to the prior year. The fund operating revenues in the proprietary funds increased \$62,464, an increase of 8.3 percent over last year. This increase is primarily due to the additional water and irrigation revenue the City received.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City revised their budget once. The original budget was adopted on June 22, 2005 and was adjusted on June 14, 2006. The general fund budget was amended from \$725,600 to \$846,100. The differences in the original budget and final amended budget are summarized as follows: 1) an increase in revenue from property taxes (\$2,400), an increase in revenue from general sales tax (\$47,000), an increase in revenue from franchise taxes (\$50,300), an increase in highway taxes (\$20,000), an increase in revenue from licenses and permits (\$400), a decrease in intergovernmental revenue (\$5,100), a decrease in charges for services (\$300), an increase in fines and forfeitures (\$8,400), a decrease in investment earnings of (\$1,000), and a decrease in miscellaneous revenue of (\$1,600), 2) an increase in expenditures for General government (\$11,400), an increase in expenditures for Public safety (\$36,000), an increase in expenditures for Highways and public improvements (\$24,400), an increase in expenditures for Parks, recreation, and public property (\$19,400), a decrease in Economic development expenditures (\$2,000) and an increase in other financing uses of (\$31,300).

The actual charges for expenditures were \$823,558. This was \$22,542 below the final budgeted amounts. The most significant positive variance (\$8,359) occurred in public safety.

Resources for revenues were \$879,129. This was \$33,029 above the final budgeted amount. The most significant positive variance (\$30,018) occurred in general sales and use taxes.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2006, the City had \$10,594,325 invested in a broad range of capital assets, including water stock, land, buildings, improvements other than buildings, machinery and equipment, and infrastructure (see Table 3 below). This amount represents a net increase (including additions and deletions) of \$21,129, or a .20 percent increase over the previous year.

Table 3
Capital Assets at Year-End
(Net of Depreciation)
June 30, 2006

	Governmental		Business-type		Totals	
	Activities		Activities		Primary	
	2006	2005	2006	2005	Government	2005
Water stock			\$ 951,927	\$ 951,927	\$ 951,927	\$ 951,927
Land	\$ 142,520	\$ 142,520	11,000	11,000	153,520	153,520
Buildings	119,034	133,633	675,092	423,686	794,126	557,319
Improvements other than buildings	11,083	11,963	3,520,051	3,576,129	3,531,134	3,588,092
Machinery and equipment	437,457	469,088	4,118	5,395	441,575	474,483
Infrastructure	4,696,698	4,847,855			4,696,698	4,847,855
Work in progress	25,345				25,345	
Total capital assets	\$ 5,432,137	\$ 5,605,059	\$ 5,162,188	\$ 4,968,137	\$ 10,594,325	\$ 10,573,196

This year's major additions included:

Capital improvements - Park restrooms	\$ 276,885
Paid for with grant and loan proceeds from the CIB and a restaurant tax grant	
Beautification Project	25,345
Paid for with grant proceeds from UDOT	
	<u>\$ 302,230</u>

The City's fiscal year 2006 capital budget calls for spending on capital projects, principally for a flood retention basin, the purchase of two trucks and one police car.

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

Long-term debt

As of June 30, 2006, the City had \$4,334,901 in bonds and notes payable outstanding. The debt represents revenue bonds secured solely by specified revenue sources. The following table (table 4) shows outstanding debt for the current and previous years.

Table 4
Outstanding Debt as of
June 30, 2006

	Governmental		Business-type		Totals	
	Activities		Activities		Primary	
	2006	2005	2006	2005	2006	2005
Revenue bonds payable	\$ 1,662,500	\$ 1,761,000	\$ 2,672,401	\$ 2,575,648	\$ 4,334,901	\$ 4,336,648

There was one issue of new debt issued during this fiscal year. The City issued \$200,000 in Taxable Lease Revenue Bonds, Series 2005, to construct restrooms and concession facilities at the city park during the fiscal year 2006. More detailed information about the City's long-term liabilities is presented in Note 7 to the financial statements.

ECONOMIC FORECAST AND FUTURE BUDGET

Wellington City's Mayor and Council consider many factors in preparing their annual budgets. The City's revenues increased last year, due to increased collections in sales and franchise taxes. These types of revenues are seen as temporary increases and thus, are utilized to purchase and fund needed capital improvements and equipment. The rising cost of health benefits for the City's employees are a continued burden on the City. The Mayor and City Council are committed to maintaining the existing level of benefits for the City's employees.

Wellington City is experiencing very slow or negative economic and residential development activity and there are no proposed developments being considered at this time. The General Fund budget is projected to be \$897,500, which is slightly higher than the previous fiscal year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our community with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Recorder, Ken Powell at 150 West Main Street, P.O. Box 559, Wellington, Utah 84542.

**WELLINGTON CITY
STATEMENT OF NET ASSETS
JUNE 30, 2006**

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<u>ASSETS</u>			
Cash and cash equivalents	\$ 120,003		\$ 120,003
Accounts receivable (net)		\$ 69,694	69,694
Taxes receivable	97,709		97,709
Due from other governments	25,345		25,345
Internal balances	17,000	(17,000)	
Prepaid expenses	21,507		21,507
Restricted assets:			
Cash and cash equivalents	277,877	3,972	281,849
Capital assets (net of accumulated depreciation):			
Water stock		951,927	951,927
Land	142,520	11,000	153,520
Buildings	119,034	675,092	794,126
Improvements other than buildings	11,083	3,520,051	3,531,134
Equipment	437,457	4,118	441,575
Infrastructure	4,696,698		4,696,698
Work in progress	25,345		25,345
Total assets	<u>\$ 5,991,578</u>	<u>\$ 5,218,854</u>	<u>\$ 11,210,432</u>
<u>LIABILITIES</u>			
Cash deficit		\$ 265,010	\$ 265,010
Accounts payable	\$ 46,671	81,712	128,383
Accrued liabilities	628		628
Bond interest payable	5,410	10,396	15,806
Deferred revenue	89,602	2,100	91,702
Noncurrent liabilities:			
Customer deposits payable		17,200	17,200
Loan payable - Due within one year		1,294	1,294
Loan payable - Due in more than one year		9,436	9,436
Revenue bonds payable - Due within one year	99,500	124,000	223,500
Revenue bonds payable - Due in more than one year	1,563,000	2,537,671	4,100,671
Compensated absences	18,323	4,005	22,328
Total liabilities	<u>\$ 1,823,134</u>	<u>\$ 3,052,824</u>	<u>\$ 4,875,958</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	\$ 3,764,227	\$ 2,479,391	\$ 6,243,618
Restricted for:			
Class "C" Roads	44,073		44,073
Cemetery	120		120
Redevelopment Agency	7,559		7,559
Debt Service	226,245	3,972	230,217
Capital Projects	16,412		16,412
Unrestricted	109,808	(317,333)	(207,525)
Total net assets	<u>\$ 4,168,444</u>	<u>\$ 2,166,030</u>	<u>\$ 6,334,474</u>

"The notes to the financial statements are an integral part of this statement."

WELLINGTON CITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

FUNCTION/PROGRAMS	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGE IN NET ASSETS		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT	
					GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES
Primary government activities:						
General government						
Public safety	\$ 234,928	\$ 7,575			\$ (227,353)	\$ (227,353)
Highways and public improvements	353,096	148,090	2,540	320	(202,146)	(202,146)
Parks and recreation	204,651		65,029	25,345	(114,277)	(114,277)
Capital outlay	49,787			61,000	11,213	11,213
Interest on long-term debt	1,669				(1,669)	(1,669)
	34,544				(34,544)	(34,544)
Total governmental activities	\$ 878,675	\$ 155,665	\$ 67,569	\$ 86,665	\$ (568,776)	\$ (568,776)
Business-type activities:						
Municipal building authority	\$ 92,788	\$ 94,260				\$ 1,472
Water and sewer fund	543,940	544,108		3,100		3,268
Irrigation fund	50,176	119,132				68,956
Sanitation fund	53,124	55,714				2,590
Recreation fund	7,425	2,036				(5,389)
Total business-type activities	\$ 747,453	\$ 815,250	\$...	\$ 3,100	\$...	\$ 70,897
Total primary government	\$ 1,626,128	\$ 970,915	\$ 67,569	\$ 89,765	\$ (568,776)	\$ (497,879)
General revenues:						
Property taxes					\$ 108,245	\$ 108,245
Sales and franchise taxes					544,453	544,453
Unrestricted investment earnings					5,836	164
Miscellaneous					9,245	6,000
Transfers in (out)					(84,885)	84,885
Total general revenues and transfers					\$ 582,894	\$ 85,049
Change in net assets					\$ 14,118	\$ 155,946
Net assets - beginning					4,154,326	2,010,084
Net assets - ending					\$ 4,168,444	\$ 2,166,030
						\$ 6,334,474

"The notes to the financial statements are an integral part of this statement."

**WELLINGTON CITY
BALANCE SHEET
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>GENERAL FUND</u>	<u>DEBT SERVICE FUND</u>	<u>CAPITAL PROJECTS FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>					
Cash and cash equivalents	\$ 138,606				\$ 138,606
Receivables (net):					
Taxes	97,709				97,709
Restricted assets:					
Cash and cash equivalents	44,073	\$ 226,245		\$ 7,559	277,877
Due from other governments			\$ 25,345		25,345
Due from other funds				17,000	17,000
Prepaid expenses	21,507				21,507
Total assets	\$ 301,895	\$ 226,245	\$ 25,345	\$ 24,559	\$ 578,044
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Cash deficit			\$ 2,240	\$ 16,363	\$ 18,603
Accounts payable	\$ 39,461		6,693	517	46,671
Accrued liabilities	628				628
Deferred revenue	89,602				89,602
Total liabilities	\$ 129,691	\$...	\$ 8,933	\$ 16,880	\$ 155,504
Fund balances:					
Reserved for:					
Class "C" Roads	\$ 44,073				\$ 44,073
Perpetual care				\$ 120	120
Redevelopment agency				7,559	7,559
Debt service fund		\$ 226,245			226,245
Unreserved, reported in:					
General fund	128,131				128,131
Capital project fund			\$ 16,412		16,412
Total fund balances	\$ 172,204	\$ 226,245	\$ 16,412	\$ 7,679	\$ 422,540
Total liabilities and fund balances	\$ 301,895	\$ 226,245	\$ 25,345	\$ 24,559	\$ 578,044

"The notes to the financial statements are an integral part of this statement."

WELLINGTON CITY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Total fund balances - governmental fund types: \$ 422,540

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Land	\$ 142,520	
Buildings	119,034	
Improvements other than buildings	11,083	
Equipment	437,457	
Infrastructure	4,696,698	
Work in progress	<u>25,345</u>	5,432,137

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Bond interest payable	\$ (5,410)	
Revenue bonds payable - current portion	(99,500)	
Revenue bonds payable - one year	(1,563,000)	
Compensated absences	<u>(18,323)</u>	<u>(1,686,233)</u>

Net assets of governmental activities \$ 4,168,444

"The notes to the financial statements are an integral part of this statement."

WELLINGTON CITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	GENERAL FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
Taxes	\$ 652,698				\$ 652,698
Licenses and permits	7,633				7,633
Intergovernmental	67,889		\$ 86,345		154,234
Charges for services	27,243			\$ 5,870	33,113
Fines and forfeitures	118,206				118,206
Miscellaneous revenue	5,460		5,836	498	11,794
Total revenues	\$ 879,129	\$...	\$ 92,181	\$ 6,368	\$ 977,678
EXPENDITURES:					
Current:					
General government	\$ 217,329				\$ 217,329
Public safety	316,541				316,541
Highways and public improvements	53,494				53,494
Parks, recreation, and public property	33,194			\$ 12,762	45,956
Capital outlay			\$ 37,785		37,785
Debt service:					
Principal retirement		\$ 98,500			98,500
Interest and fiscal charges		34,727			34,727
Total expenditures	\$ 620,558	\$ 133,227	\$ 37,785	\$ 12,762	\$ 804,332
Excess revenues over (under) expenditures	\$ 258,571	\$ (133,227)	\$ 54,396	\$ (6,394)	\$ 173,346
OTHER FINANCING SOURCES (USES):					
Transfers in		\$ 158,700	\$ 31,300	\$ 5,000	\$ 195,000
Transfers out	\$ (203,000)		(76,885)		(279,885)
Total other financing sources (uses)	\$ (203,000)	\$ 158,700	\$ (45,585)	\$ 5,000	\$ (84,885)
Excess of revenues and other sources over (under) expenditures and other uses	\$ 55,571	\$ 25,473	\$ 8,811	\$ (1,394)	\$ 88,461
FUND BALANCES - beginning of year	116,633	200,772	7,601	9,073	334,079
FUND BALANCES - end of year	\$ 172,204	\$ 226,245	\$ 16,412	\$ 7,679	\$ 422,540

"The notes to the financial statements are an integral part of this statement."

WELLINGTON CITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$	88,461
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.		(172,922)
--	--	-----------

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. (Principal debt payment)		98,500
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (Bond interest payable, compensated absences and sales of capital assets).		79
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Change in net assets of governmental activities	\$	<u>14,118</u>
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"The notes to the financial statements are an integral part of this statement."

**WELLINGTON CITY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006**

BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS

	<u>MUNICIPAL BUILDING AUTHORITY</u>	<u>WATER AND SEWER FUND</u>	<u>IRRIGATION FUND</u>	<u>NONMAJOR FUNDS</u>	<u>TOTAL</u>
<u>ASSETS</u>					
Current assets:					
Cash and cash equivalents				\$ 17,564	\$ 17,564
Restricted cash and cash equivalents	\$ 2,609	\$ 1,363			3,972
Receivables - net					
Accounts		57,002	\$ 6,877	5,815	69,694
Total current assets	\$ 2,609	\$ 58,365	\$ 6,877	\$ 23,379	\$ 91,230
Noncurrent assets:					
Water stock		\$ 756,342	\$ 195,585		\$ 951,927
Land		11,000			11,000
Buildings	\$ 891,856	12,743			904,599
Improvements other than buildings		2,083,819	2,977,172		5,060,991
Machinery and equipment		204,568			204,568
Less: Accumulated depreciation	(216,764)	(1,340,085)	(414,048)		(1,970,897)
Total noncurrent assets	\$ 675,092	\$ 1,728,387	\$ 2,758,709	\$...	\$ 5,162,188
Total assets	\$ 677,701	\$ 1,786,752	\$ 2,765,586	\$ 23,379	\$ 5,253,418
<u>LIABILITIES</u>					
Current liabilities:					
Cash deficit	\$ 85,129	\$ 142,165	\$ 55,280		\$ 282,574
Accounts payable	1,058	75,016	1,114	\$ 4,524	81,712
Accrued interest payable	5,252		5,144		10,396
Due to other funds	17,000				17,000
Deferred revenue	2,100				2,100
Current portion - long-term debt	16,000	1,294	108,000		125,294
Total current liabilities	\$ 126,539	\$ 218,475	\$ 169,538	\$ 4,524	\$ 519,076

"The notes to the financial statements are an integral part of this statement."

WELLINGTON CITY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				
	MUNICIPAL BUILDING AUTHORITY	WATER AND SEWER FUND	IRRIGATION FUND	NONMAJOR FUNDS	TOTAL
Noncurrent liabilities:					
Compensated absences		\$ 4,005			\$ 4,005
Customer deposits payable		17,200			17,200
Loan payable		9,436			9,436
Revenue bonds payable	\$ 448,000		\$ 2,089,671		2,537,671
Total noncurrent liabilities	\$ 448,000	\$ 30,641	\$ 2,089,671	\$...	\$ 2,568,312
Total liabilities	\$ 574,539	\$ 249,116	\$ 2,259,209	\$ 4,524	\$ 3,087,388
Net Assets:					
Invested in capital assets, net of related debt	\$ 205,840	\$ 1,717,657	\$ 555,894		\$ 2,479,391
Restricted	2,609	1,363			3,972
Unrestricted	(105,287)	(181,384)	(49,517)	\$ 18,855	(317,333)
Total net assets	\$ 103,162	\$ 1,537,636	\$ 506,377	\$ 18,855	\$ 2,166,030

"The notes to the financial statements are an integral part of this statement."

WELLINGTON CITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				
	MUNICIPAL BUILDING AUTHORITY	WATER AND SEWER FUND	IRRIGATION FUND	NONMAJOR FUNDS	TOTAL
Operating revenues:					
Charges for sales and services	\$ 94,260	\$ 544,108	\$ 119,132	\$ 57,750	\$ 815,250
Total operating revenues	\$ 94,260	\$ 544,108	\$ 119,132	\$ 57,750	\$ 815,250
Operating expenses:					
Employee salaries	\$ 696	\$ 65,832	\$ 8,284		\$ 74,812
Employee benefits	621	42,726	3,989		47,336
Contractual services				\$ 60,549	60,549
Supplies	9,321	523	5,277		15,121
Utilities	41,137	1,606	5,511		48,254
Fuel and oil		5,148			5,148
Repairs and maintenance		38,200			38,200
Depreciation	24,969	57,865			82,834
Water and sewer services		293,654	5,961		299,615
Office supplies		4,683			4,683
Miscellaneous		1,968			1,968
Insurance	8,253	16,960			25,213
Rental		14,150			14,150
Total operating expenses	\$ 84,997	\$ 543,315	\$ 29,022	\$ 60,549	\$ 717,883
Operating income (loss)	\$ 9,263	\$ 793	\$ 90,110	\$ (2,799)	\$ 97,367

"The notes to the financial statements are an integral part of this statement."

WELLINGTON CITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				
	MUNICIPAL BUILDING AUTHORITY	WATER AND SEWER FUND	IRRIGATION FUND	NONMAJOR FUNDS	TOTAL
Nonoperating revenues (expenses):					
Interest revenue	\$ 108	\$ 56			\$ 164
Interest expense and fiscal charges	(7,791)	(625)	\$ (21,154)		(29,570)
Grants		3,100			3,100
Total nonoperating revenues (expenses)	\$ (7,683)	\$ 2,531	\$ (21,154)	\$...	\$ (26,306)
Income (loss) before contributions and transfers	\$ 1,580	\$ 3,324	\$ 68,956	\$ (2,799)	\$ 71,061
Contributions and Transfers In (Out):					
Transfers in	\$ 76,885			\$ 8,000	84,885
Total contributions and transfers in (out)	\$ 76,885	\$...	\$...	\$ 8,000	\$ 84,885
Change in net assets	\$ 78,465	\$ 3,324	\$ 68,956	\$ 5,201	\$ 155,946
Total net assets - beginning	24,697	1,534,312	437,421	13,654	2,010,084
Total net assets - ending	\$ 103,162	\$ 1,537,636	\$ 506,377	\$ 18,855	\$ 2,166,030

"The notes to the financial statements are an integral part of this statement."

**WELLINGTON CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006**

	ENTERPRISE FUNDS				TOTAL
	MUNICIPAL BUILDING AUTHORITY	WATER AND SEWER FUND	IRRIGATION FUND	NON-MAJOR ENTERPRISE FUNDS	
Cash Flows From Operating Activities:					
Cash receipts from customers	\$ 94,260	\$ 543,969	\$ 118,958	\$ 57,540	\$ 814,727
Cash payments to suppliers	(59,629)	(437,826)	(22,495)	(60,369)	(580,319)
Cash payments to employees	(1,317)	(108,092)	(12,273)		(121,682)
Net cash provided (used) by operating activities	\$ 33,314	\$ (1,949)	\$ 84,190	\$ (2,829)	\$ 112,726
Cash Flows From Noncapital Financing Activities:					
Transfers from other funds	\$ 76,885			\$ 8,000	84,885
Net cash provided (used) by noncapital financing activities	\$ 76,885	\$...	\$...	\$ 8,000	\$ 84,885
Cash Flows From Capital and Related Financing Activities:					
Acquisition of capital assets	\$ (276,885)				\$ (276,885)
Interest paid on revenue bonds and loans	(7,791)	\$ (625)	\$ (21,154)		(29,570)
Principal paid on revenue bonds and loans	(15,000)	(1,247)	(87,000)		(103,247)
Issue of revenue bonds	200,000				200,000
Grants received		3,100			3,100
Net cash provided (used) by capital and related financing activities	\$ (99,676)	\$ 1,228	\$ (108,154)	\$...	\$ (206,602)
Cash Flows From Investing Activities:					
Interest and dividends received	\$ 108	\$ 56	\$...	\$...	\$ 164
Net cash provided (used) by investing activities	\$ 108	\$ 56	\$...	\$...	\$ 164
Net increase (decrease) in cash and cash equivalents	\$ 10,631	\$ (665)	\$ (23,964)	\$ 5,171	\$ (8,827)
Cash and cash equivalents, July 1	(93,151)	(140,137)	(31,316)	12,393	(252,211)
Cash and cash equivalents, June 30	\$ (82,520)	\$ (140,802)	\$ (55,280)	\$ 17,564	\$ (261,038)

"The notes to the financial statements are an integral part of this statement."

WELLINGTON CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	ENTERPRISE FUNDS				TOTAL
	MUNICIPAL BUILDING AUTHORITY	WATER AND SEWER FUND	IRRIGATION FUND	NON-MAJOR ENTERPRISE FUNDS	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating income (loss)	\$ 9,263	\$ 793	\$ 90,110	\$ (2,799)	\$ 97,367
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation expense	\$ 24,969	\$ 57,865			\$ 82,834
(Increase) Decrease in utility receivables		(2,639)	\$ (174)		(2,813)
(Increase) Decrease in miscellaneous receivables				\$ (210)	(210)
Increase (Decrease) in accounts payable	108	(60,934)	(5,553)	180	(66,199)
Increase (Decrease) in compensated absences		466			466
Increase (Decrease) in customer deposits payable		2,500			2,500
Increase (Decrease) in accrued interest payable	(1,026)		(193)		(1,219)
Total adjustments	\$ 24,051	\$ (2,742)	\$ (5,920)	\$ (30)	\$ 15,359
Net cash provided (used) by operating activities	\$ 33,314	\$ (1,949)	\$ 84,190	\$ (2,829)	\$ 112,726

"The notes to the financial statements are an integral part of this statement."

WELLINGTON CITY
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

Wellington City (the City) is a municipal corporation governed by an elected mayor and five-member council. The City provides the following services: public safety, highways and public improvements, parks and recreation, economic development, and general administrative services. In addition, the City owns and operates culinary water, sewer and secondary systems.

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the City are described below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.
- Financial statements prepared using full-accrual accounting for all of the City's activities, including infrastructure (roads, etc.).
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to the financial statements).

A. Reporting Entity

The accompanying financial statements include the City, which is a political subdivision with corporate powers created under Utah State law, and one blended component unit, collectively referred to as the financial reporting entity. The governing body is comprised of the council and the mayor. As required by generally accepted accounting principles, these financial statements present the City (the primary government) and its component units. The component units are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)**

B. **Component Units**

In evaluating how to define the reporting entity, the City has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. Component units are separate legal entities for which the City is considered to be financially accountable.

The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth by the Governmental Accounting Standards Board's (GASB) Statement No. 14. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the city to impose its will on the organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific burdens on the City.

GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, was implemented by the City for fiscal year ended June 30, 2004. Statement 39, an amendment of Statement No. 14, provides additional criteria in determining whether certain legally separate organizations, for which the City is not financially accountable, should be reported as component units based upon the nature and significance of their relationship with the City. An organization is reported as a component unit of the City, if all three of the following criteria are met: 1) The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents, 2) the primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and 3) The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

There were no potential component units, which met all of the criteria outlined in Statement 39; however, there are two entities that qualified as a "blended component units" under Statement 14.

Blended Component Unit

The Wellington City Redevelopment Agency is included in this report as the Redevelopment Agency (RDA), a special revenue fund, which is a component unit blended in the City's financial statements. Although the RDA is clearly established as a separate entity under state law, it is included due to financial accountability and the extensive oversight provided by the City. It is comprised of a governing body that has been appointed by the City and may be removed and replaced at their discretion.

The Wellington City Municipal Building Authority was created by the City Council as a body politic and corporate for the purpose of financing, owning, leasing, or operating facilities to meet the needs of the City government. It is comprised of a governing body that has been appointed by the City Council and may be removed or replaced at any time according to its discretion.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)**

C. **Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activity) report information on all of the non-fiduciary activities of the City and its component units. For the most part, the effect of interfund activity has been removed from these statements. Government activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

D. **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Sales taxes, property taxes, franchise taxes, interest, and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property taxes are recognized as revenue in the year for which they are levied. Amounts received or recognized as receivable at fiscal year end are included in the financial statements as taxes receivable and deferred revenue.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)**

D. **Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when the City receives cash.

The City reports the following major governmental funds:

- General Fund – The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those that are required to be accounted for in another fund.
- Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related cost.
- Capital Projects Fund – The Capital Projects Fund accounts for financial resources to be used for the acquisition of equipment and construction of major capital facilities (other than those financed by proprietary funds and trust funds).

The City's non-major governmental funds include a special revenue fund and a permanent fund. The special revenue fund accounts for specific revenue sources that are legally restricted to expenditure, for specified purposes. The permanent fund is used to account for the resources that are legally restricted for the use of the perpetual care of the City's cemetery.

The City reports the following major proprietary funds:

- Municipal Building Authority – The Municipal Building Authority Fund accounts for the resources for the financing, owning, leasing and operation of facilities to meet the needs of the City government.
- Water and Sewer Fund - The Water and Sewer Fund accounts for the resources and expenditures in the operating and maintain of providing water and sewer services to the resident of the City.
- Irrigation Fund – The Irrigation Funds accounts for the resources and expenditures in the operating and maintain of providing secondary water services to the residents of Wellington City.

The City's non-major enterprise funds include a sanitation fund which accounts for the resources and expenditures associated with the collection and disposal of garbage within the city and a recreation fund which accounts for the resources used in the operation of recreational activities within the City.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)**

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expense from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

E. Budgetary Data

Budgets are presented on the modified accrual basis of accounting for all governmental funds and on the accrual basis for proprietary funds. All annual appropriations lapse at fiscal year end. The following procedures are used in establishing the budgetary data reflected in the financial statements.

- 1) During May of each year, the Mayor submits to the City Council a proposed operating budget for the next fiscal year commencing July 1st. The operating budget includes proposed expenditures and the proposed sources of revenues. A final budget for the current year ending June 30 is also included.
- 2) Copies of the proposed budget are made available for public inspection and review by the citizens of the City.
- 3) If the City does not exceed the certified tax rate, a public hearing is held prior to June 22 and the budget is legally adopted through passage of a resolution. If the City exceeds the certified tax rate, the budget is adopted in August when data is available to set the rates.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)**

E. **Budgetary Data (Continued)**

- 4) Once adopted, the budget can be amended by subsequent City Council action. The City Council can approve reductions in appropriations, but increases in appropriations, by fund, require a public hearing prior to amending the budget. In accordance with Utah State law, interim adjustments may be made by the administrative transfer of money from one appropriation to another within any given fund.
- 5) Minor interim adjustments in estimated revenues and appropriations during the year ended June 30, 2006, have been included in the final budget approved by the City Council, as presented in the financial statements.
- 6) Expenditures may not legally exceed budgeted appropriations at the department level for the General Fund and the fund level for all other funds.

F. **Cash and Cash Equivalents**

The City considers cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition, including investments in the Public Treasurers' Investment Fund (PTIF), to be cash and cash equivalents.

G. **Receivables and Payables**

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

H. **Capital Assets**

Capital assets, which include land, buildings, improvements, equipment, infrastructure assets (e.g., roads, curb, gutter, sidewalks, and similar items), and water stock, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial individual cost of \$500.00 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction is not capitalized.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)**

H. **Capital Assets (Continued)**

Buildings, improvements, equipment, and infrastructure assets of the City are depreciated using the straight-line method over the following estimated lives:

<u>Assets</u>	<u>Years</u>
Buildings	10-50
Improvements	10-50
Office equipment	5-10
Machinery and equipment	5-10
Automotive equipment	5-20
Infrastructure	30-50

I. **Compensated Absences**

It is the City's policy to permit employees to accumulate earned but unused sick pay, vacation and other employee benefits. An estimate of sick leave liability and vacation pay is accrued when incurred in the government-wide financial statements and proprietary funds and reported as a liability. Vacation, comp-time, and every tenth sick day leave vests.

Accrued unpaid sick pay, vacation and other employee benefits, which vest to the employees in the government-wide financial statements for governmental activities total \$18,323 and for proprietary funds total \$4,005.

J. **Long-Term Obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

K. **Net Assets/Fund Balances**

The difference between assets and liabilities is "Net Assets" on the government-wide and proprietary fund financial statements and "Fund Balance" on the governmental fund financial statements. Net assets are divided into invested in capital assets (net of related debt), restricted, and unrestricted. Net assets are reported as restricted when constraints are placed upon them by external parties or are imposed by constitutional provisions or enabling legislation.

In the governmental fund financial statements, fund balances are classified as reserved, unreserved designated, or unreserved undesignated. Reserves represent those portions of fund balance not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

2. DEPOSITS AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the fund financial statements as cash and investments. Income from the investment of pooled cash is allocated based on each fund's portion of the pool. In addition, cash is separately held by individual funds.

The City follows the requirements of the Utah Money Management Act (Utah Code Annotated, Title 51, Chapter 7) in handling its depository and investment transactions. The City does not have separate policies that address the specific types of deposit and investment risks to which the City is exposed.

Deposits

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be recovered. The City's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires the depositing of City funds in a *qualified depository*. The Act defines a *qualified depository* as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The City's deposits in the bank in excess of the insured amount are uninsured and uncollateralized. Deposits are not collateralized nor are they required to be by state statute. The City's deposits at June 30, 2006, were \$3,783. Of these deposits, all were insured, but uncollateralized.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the City and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the City to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer. The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act. This Act established the Money Management Council, which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments.

2. DEPOSITS AND INVESTMENTS (Continued)

Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees – of the PTIF are allocated based on the participants' average daily balances. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of June 30, 2006, the City had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
Utah Public Treasurer's Investment Fund	\$ 154,439	\$ 154,439			
Total Investments	\$ 154,439	\$ 154,439	\$...	\$...	\$...

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City manages its risk in part by investing in the Utah Public Treasurers Investment Fund. The City also manages its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. This further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptance, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding two years.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's policy for limiting the credit risk of investments is to comply with the Money Management Act. The Act requires investment transactions to be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

2. DEPOSITS AND INVESTMENTS (Continued)

At June 30, 2006, the City had the following investments and quality ratings:

<u>Investment Type</u>	<u>Fair Value</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Unrated</u>
Utah Public Treasurer's Investment Fund	<u>\$ 154,439</u>	<u></u>	<u></u>	<u></u>	<u>\$ 154,439</u>
Total Investments	<u>\$ 154,439</u>	<u>\$...</u>	<u>\$...</u>	<u>\$...</u>	<u>\$ 154,439</u>

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City's informal policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. No more than 5% of all funds may be invested in securities of a corporation that has been in continuous operation for less than three years. No more than 5% of the outstanding voting securities of any one corporation may be held. In addition, Rule 2 limits investment concentrations in certain types of investments. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar amount held in the portfolio.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a formal policy for custodial credit risk. As of June 30, 2006, the City had \$154,439 invested in the Public Treasurer's Investment Fund and was held by them.

3. RESTRICTED CASH/NET ASSETS

During prior years, the City issued four irrigation water revenue bonds, one taxable excise tax revenue bond and one franchise and sales tax revenue bond. The purpose of these bonds, were for the construction of a pressurized irrigation water system and for roads, curb and gutters and sidewalk improvements within the City limits. In connection with the bond agreements, the City has established bond sinking and bond reserve funds. These funds are to assure that adequate money is available to service debt payments as they come due. Reserved amounts are shown below, along with other restricted funds.

3. RESTRICTED CASH/NET ASSETS (Continued)

	<u>CASH</u>	<u>NET ASSETS</u>
<u>Enterprise Funds</u>		
Sinking funds	\$ 1,363	\$ 1,363
Reserve accounts	2,609	2,609
	<u>\$ 3,972</u>	<u>\$ 3,972</u>
<u>Governmental Funds</u>		
Class "C" Roads	\$ 44,073	\$ 44,073
Perpetual care		120
Redevelopment Agency	7,559	7,559
Debt Service	226,245	226,245
Capital Projects		16,412
	<u>\$ 277,877</u>	<u>\$ 294,409</u>

4. PROPERTY TAXES

The property tax revenue of the City is collected and distributed by the Carbon County Treasurer as an agent of the City. Utah statutes establish the process by which taxes are levied and collected. The county assessor is required to assess real property as of January 1 and complete the tax rolls by May 15. By July 21, the county auditor is to mail assessed value and tax notices to property owners. A taxpayer may then petition the County Board of Equalization between August 1 and August 15 for a revision of the assessed value. The county auditor makes approved changes in assessed value by November 1 and on this same date the county auditor is to deliver the completed assessment rolls to the county treasurer. Tax notices are mailed with a due date of November 30. Delinquent taxes are subject to a 2% penalty, with a \$10 minimum penalty. If delinquent taxes and penalties are not paid by January 15 of the following year, these delinquent taxes, including penalties, are subject to an interest charge at an annual rate equal to the federal discount rate plus 6%; the interest period is from January 1 until the date paid.

As of June 30, 2006, property taxes receivable consist of 1) delinquent taxes assessed but uncollected for calendar year 2005 and earlier and 2) taxes assessed as of January 1, 2006, but are not due and payable until November 30, 2006. It is expected that all delinquencies, plus accrued interest and penalties, will be collected within a five-year period, during which time, the county treasurer may force the sale of property to collect the delinquent portion. Only the portion of property taxes receivable that meets the revenue recognition criteria is reported as revenue in the fund financial statements.

Beginning January 1, 1992, there was levied, in lieu of the ad valorem tax, an annual uniform fee based on the value of motor vehicles. The uniform fee was 1.5% of the fair market statewide value of the property, as established by the State Tax Commission. On January 1, 1999, legislation became effective which made motor vehicles weighing 12,000 pounds or less subject to an "age-based" fee that is due each time the vehicle is registered. The revenues collected in each county from the uniform fee, are distributed by the county to each taxing entity in which, the property is located in the same proportion in which, revenue collected from ad valorem real property tax is distributed. The City recognizes age-based fees as revenues when collected by the county.

5. **CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Primary Government				
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 142,520			\$ 142,520
Work in progress		\$ 25,345		25,345
Total capital assets not being depreciated	\$ 142,520	\$ 25,345	\$...	\$ 167,865
Capital assets being depreciated:				
Buildings	\$ 320,281			\$ 320,281
Improvements other than buildings	32,596			32,596
Machinery and equipment	925,757	\$ 23,884		949,641
Infrastructure	6,236,870	4,100		6,240,970
Total capital assets being depreciated:	\$ 7,515,504	\$ 27,984	\$...	\$ 7,543,488
Less accumulated depreciation for:				
Buildings	\$ 186,648	\$ 14,599		\$ 201,247
Improvements other than buildings	20,633	880		21,513
Machinery and equipment	456,669	55,515		512,184
Infrastructure	1,389,015	155,257		1,544,272
Total accumulated depreciation	\$ 2,052,965	\$ 226,251	\$...	\$ 2,279,216
Total capital assets being depreciated, net	\$ 5,462,539	\$ (198,267)	\$...	\$ 5,264,272
Governmental activities capital assets, net	\$ 5,605,059	\$ (172,922)	\$...	\$ 5,432,137

5. **CAPITAL ASSETS (Continued)**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 11,000			\$ 11,000
Water stock	<u>951,927</u>			<u>951,927</u>
Total capital assets not being depreciated	<u>\$ 962,927</u>	<u>\$...</u>	<u>\$...</u>	<u>\$ 962,927</u>
Capital assets being depreciated:				
Buildings	\$ 627,714	\$ 276,885		\$ 904,599
Improvements other than buildings	5,060,991			5,060,991
Machinery and equipment	<u>204,568</u>			<u>204,568</u>
Total capital assets being depreciated:	<u>\$ 5,893,273</u>	<u>\$ 276,885</u>	<u>\$...</u>	<u>\$ 6,170,158</u>
Less accumulated depreciation for:				
Buildings	\$ 204,028	\$ 25,479		\$ 229,507
Improvements other than buildings	1,484,862	56,078		1,540,940
Machinery and equipment	<u>199,173</u>	<u>1,277</u>		<u>200,450</u>
Total accumulated depreciation	<u>\$ 1,888,063</u>	<u>\$ 82,834</u>	<u>\$...</u>	<u>\$ 1,970,897</u>
Total capital assets being depreciated, net	<u>\$ 4,005,210</u>	<u>\$ 194,051</u>	<u>\$...</u>	<u>\$ 4,199,261</u>
Business-type activities capital assets, net	<u>\$ 4,968,137</u>	<u>\$ 194,051</u>	<u>\$...</u>	<u>\$ 5,162,188</u>

5. **CAPITAL ASSETS (Continued)**

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General government	\$ 18,801
Public safety	48,362
Highways and public improvements	155,257
Parks and recreation	<u>3,831</u>
Total depreciation expense - governmental activities	<u>\$ 226,251</u>
Business-type Activities:	
Municipal Building Authority	\$ 24,969
Water and sewer	57,865
Irrigation	<u></u>
Total depreciation expense - business-type activities	<u>\$ 82,834</u>
Total depreciation expense	<u><u>\$ 309,085</u></u>

6. **PENSION PLANS**

Local Governmental – Cost Sharing

Plan Description. Wellington City contributes to the Local Governmental Noncontributory Retirement System and Public Safety Retirement System for employers with (without) Social Security coverage, which are all for cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement systems (Systems). Utah Retirement systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System, Local Governmental Noncontributory Retirement System, and Public Safety Retirement System for employers with (without) Social Security coverage. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

6. **PENSION PLANS (Continued)**

Funding Policy. For plan members in the Local Governmental Noncontributory Retirement System, Wellington City is required to contribute 11.09% of their annual covered salary. In the Public Safety Retirement System for employers with (without) Social Security coverage contributory division Wellington City is required to contribute 19.34% of their annual covered salary for members in the noncontributory division. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Wellington City's contributions to the Noncontributory Retirement System for the years ending June 30, 2006, 2005 and 2004 were \$19,192, \$20,125 and \$17,055 respectively and for the Public Safety Retirement System the contributions for June 30, 2006, 2005 and 2004 were \$24,587, \$22,835 and \$18,988 respectively. The contributions were equal to the required contributions for each year.

7. **LONG-TERM DEBT**

Annual debt service requirements to maturity for revenue bonds and loans payable are as follows:

Year Ending June 30,	<u>Governmental Activities</u>			<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 99,500	\$ 31,850	\$ 131,350	\$ 125,294	\$ 29,075	\$ 154,369
2008	100,500	30,750	131,250	134,367	27,542	161,909
2009	101,500	29,625	131,125	135,444	25,995	161,439
2010	103,500	28,475	131,975	137,525	24,434	161,959
2011	104,500	27,275	131,775	138,611	22,828	161,439
2012-2016	374,000	117,425	491,425	714,490	89,512	804,002
2017-2021	297,000	82,850	379,850	732,670	47,118	779,788
2022-2026	336,000	43,900	379,900	506,000	11,700	517,700
2027-2031	146,000	5,500	151,500	40,000		40,000
2032				8,000		8,000
	<u>\$1,662,500</u>	<u>\$ 397,650</u>	<u>\$2,060,150</u>	<u>\$2,672,401</u>	<u>\$ 278,204</u>	<u>\$ 2,950,605</u>

Revenue bonds issued for governmental activities were used for the construction and improvement of roads, curb and gutters and sidewalks within the City limits. All revenue bonds issued for business-type activities were used for the construction, repair, and maintenance of real estate of the Municipal Building Authority, water lines within the City and the City's secondary irrigation system.

7. LONG-TERM DEBT

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable:					
Revenue bonds - CIB	\$ 1,761,000		\$ (98,500)	\$ 1,662,500	\$ 99,500
Compensated absences	18,219	\$ 104		18,323	
Governmental activity long-term liabilities	<u>\$ 1,779,219</u>	<u>\$ 104</u>	<u>\$ (98,500)</u>	<u>\$ 1,680,823</u>	<u>\$ 99,500</u>
Business-type activities:					
Bonds and Loans payable:					
Loan payable	\$ 11,977		\$ (1,247)	\$ 10,730	\$ 1,294
Revenue bonds	2,563,671	\$ 200,000	(102,000)	2,661,671	124,000
Compensated absences	3,539	466		4,005	
Business-type activity long-term liabilities	<u>\$ 2,579,187</u>	<u>\$ 200,466</u>	<u>\$ (103,247)</u>	<u>\$ 2,676,406</u>	<u>\$ 125,294</u>

Revenue Bonds – Revenue bonds and loans payable at June 30, 2006, with their outstanding balances, are comprised of the following individual issues:

Governmental Activities:

\$1,400,000 Sales Tax Revenue Bonds, Series 2001B, due in annual principal installments of \$41,000 to \$74,000 beginning September 1, 2003 through September 1, 2011, interest of 2.50% per annum. \$ 1,274,000

\$555,000 Excise Tax Revenue Bonds, Series 2001A, due in annual principal installments of \$55,500 beginning September 1, 2003 through September 1, 2011, interest of 0.00% per annum. 388,500

Total Governmental Activities \$ 1,662,500

7. LONG-TERM DEBT (Continued)

Business-type Activities:

\$1,700,000 Irrigation Water Revenue Bonds, Series 1999A, due in annual principal installments of \$68,000 to \$108,670, beginning April 1, 2001, through April 1, 2020, interest of 1.00% per annum.	\$ 1,305,671
\$200,000 Irrigation Water Revenue Bonds, Series 1999B, due in annual principal installments of \$10,000 beginning April 1, 2001, through April 1, 2020, interest of 0.00% per annum.	140,000
\$400,000 Irrigation Water Revenue Bonds, Series 2000, due in annual principal installments of \$78,000 to \$82,000, beginning April 1, 2021, through April 1, 2025, interest of 1.00% per annum.	400,000
\$400,000 Irrigation Water Revenue Bonds, Series 2000A, due in annual principal installments of \$8,000 to \$36,000, beginning April 1, 2001, through April 1, 2025, interest of 1.00% per annum.	352,000
\$23,542 General Electric Loan, due in annual principal installments of \$1,872, beginning August 1, 1997, through August 1, 2013, interest of 5.50% per annum.	10,730
\$480,000 CIB Lease Revenue Bonds, Series 1994, due in annual principal installments of \$14,000 to \$23,000, beginning October 1, 1995, through October 1, 2019 at a 3.00% per annum.	264,000
\$400,000 Taxable Lease Revenue Bonds, Series 2005, due in annual principal installments of \$8,000 beginning on July 1, 2007 and continuing through July 1, 2031. The bonds carry an interest rate of 0.00%.	<u>200,000</u>
	<u>\$ 2,672,401</u>

8. **CONTINGENT LIABILITIES**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the state and federal governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

According to its attorney, the City has no pending lawsuits and notice of claims filed against it as of June 30, 2006.

9. **REDEVELOPMENT AGENCY**

On February 13, 2002, Wellington City adopted Resolution No. 2002-01, which created the Wellington City Economic Development and Redevelopment Agency (Agency), pursuant to Utah Code Annotated Section 174B-4-101. The geographic boundaries of the Agency are coterminous with the boundaries of Wellington City. The purposes of the Agency is to: (1) promote the creation and/or retention of public and/or private jobs within Wellington through planning, design, development, construction, rehabilitation, business relocation, or any combination of these within part or all of one or more project areas; and the provision of office, industrial manufacturing warehousing, distribution, parking, public, or other facilities, or other improvements that benefit Wellington City; and (2) undertake development activities, including,; planning design, development, demolition, clearance, construction, rehabilitation, or any combination of these, of part or all of a project area.

During the year ended June 30, 2006, the City did not receive any tax increment revenue for the Wellington City Redevelopment Agency, nor did they make any disbursements out of the redevelopment agency. Currently, the Redevelopment Agency has no outstanding bonds or loans.

The Agency's Board is comprised of the members of the City Council of Wellington City, State of Utah, as presently or hereinafter constituted.

During the fiscal year ended June 30, 2006, the Redevelopment Agency did not acquire any property.

10. **PROPERTY TAX CALENDAR**

The City adopts, by June 22, the proposed tax rates as part of its budget for the current year, which begins July 1. If the proposed rates exceed a certified tax rate, a special public hearing must be held before the final rate is adopted. The final tax rate is assessed by the county assessor on property in the county as of July 1. The taxes are payable to the County treasurer by the end of November and are remitted to the City by the county treasurer as collected.

11. **SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

The City issued revenue bonds in the Water and Sewer Fund for the purpose of constructing and repairing the culinary water distributions systems. Both the Water and Sewer departments are accounted for in a single fund. The City also operates a Municipal Building Authority, which has made improvements or purchased real property by issuing revenue bonds.

In addition, the City operates a secondary irrigation system, which has issued revenue bonds for the purpose of constructing and maintaining a pressurized irrigation system. Segment information is reported for these funds due to bond issues or because of material enterprise fund operating income or loss.

A summary of the financial statements for these enterprise funds is presented below:

CONDENSED STATEMENT OF NET ASSETS

	<u>Municipal Building Authority</u>	<u>Water and Sewer Fund</u>	<u>Irrigation Fund</u>
Assets:			
Current assets	\$ 2,609	\$ 58,365	\$ 6,877
Capital assets	<u>675,092</u>	<u>1,728,387</u>	<u>2,758,709</u>
Total assets	<u>\$ 677,701</u>	<u>\$ 1,786,752</u>	<u>\$ 2,765,586</u>
Liabilities:			
Current liabilities	\$ 126,539	\$ 218,475	\$ 169,538
Noncurrent liabilities	<u>448,000</u>	<u>641</u>	<u>2,089,671</u>
Total liabilities	<u>\$ 574,539</u>	<u>\$ 219,116</u>	<u>\$ 2,259,209</u>
Net Assets:			
Invested in capital assets, net of related debt	\$ 205,840	\$ 1,717,657	\$ 555,894
Restricted	2,609	1,363	
Unrestricted	<u>(105,287)</u>	<u>(181,384)</u>	<u>(49,517)</u>
Total net assets	<u>\$ 103,162</u>	<u>\$ 1,537,636</u>	<u>\$ 506,377</u>
Capital assets:			
Additions	\$ 276,885	\$...	\$...

11. **SEGMENT INFORMATION FOR ENTERPRISE FUNDS (Continued)**

**CONDENSED STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS**

	<u>Municipal Building Authority</u>	<u>Water and Sewer Fund</u>	<u>Irrigation Fund</u>
Operating revenues	\$ 94,260	\$ 544,108	\$ 119,132
Depreciation expense	(24,969)	(57,865)	
Other operating expenses	<u>(60,028)</u>	<u>(485,450)</u>	<u>(29,022)</u>
Operating income (loss)	<u>\$ 9,263</u>	<u>\$ 793</u>	<u>\$ 90,110</u>
Nonoperating revenue (expenses):			
Investment earnings	\$ 108	\$ 56	
Interest expense and fiscal charges	(7,791)	(625)	\$ (21,154)
Grants		<u>3,100</u>	
Total nonoperating revenue (expenses)	<u>\$ (7,683)</u>	<u>\$ 2,531</u>	<u>\$ (21,154)</u>
Contributions and transfers			
Transfers	<u>\$ 76,885</u>		
Total contributions and transfers	<u>\$ 76,885</u>	<u>\$...</u>	<u>\$...</u>
Change in net assets	\$ 78,465	\$ 3,324	\$ 68,956
Beginning net assets	<u>24,697</u>	<u>1,534,312</u>	<u>437,421</u>
Ending net assets	<u><u>\$ 103,162</u></u>	<u><u>\$ 1,537,636</u></u>	<u><u>\$ 506,377</u></u>

11. **SEGMENT INFORMATION FOR ENTERPRISE FUNDS (Continued)**

	<u>Municipal Building Authority</u>	<u>Water and Sewer Fund</u>	<u>Irrigation Fund</u>
Operating revenues:			
Charges for services	\$ 94,260	\$ 544,108	\$ 119,132
Depreciation expense	(24,969)	(57,865)	
Operating income (loss)	9,263	793	90,110
Transfers	76,885		
Net income (loss)	78,465	3,324	68,956
Property, plant, and equipment:			
Additions	276,885		
Deletions			
Net working capital	(123,930)	(160,110)	(162,661)
Total assets	677,701	1,786,752	2,765,586
Bonds/Loans payable	464,000	10,730	2,197,671
Total equity	103,162	1,537,636	506,377

CONDENSED STATEMENT OF CASH FLOWS

Net cash provided (used) by:			
Operating activities	\$ 33,314	\$ (1,949)	\$ 84,190
Noncapital financing activities	76,885		
Capital and related financing activities	(99,676)	1,228	(108,154)
Investing activities	108	56	
Net increase (decrease)	\$ 10,631	\$ (665)	\$ (23,964)
Beginning cash and cash equivalents	(93,151)	(140,137)	(31,316)
Ending cash and cash equivalents	<u>\$ (82,520)</u>	<u>\$ (140,802)</u>	<u>\$ (55,280)</u>

12. **RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City pays a monthly premium to Utah Local Governments Trust for its health insurance coverage. The City is insured through commercial companies for its general liability coverage. At June 30, 2006, the City had no claims or judgments filed against it related to the risks mentioned above.

13. **RECEIVABLES**

Receivables as of June 30, 2006 for the City's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>GENERAL FUND</u>	<u>WATER AND SEWER FUND</u>	<u>IRRIGATION FUND</u>	<u>NONMAJOR AND OTHER FUNDS</u>	<u>TOTAL</u>
Receivables:					
Taxes	\$ 97,709				\$ 97,709
Accounts		\$ 67,805	\$ 6,877	\$ 5,815	80,497
Gross receivables	\$ 97,709	\$ 67,805	\$ 6,877	\$ 5,815	\$ 178,206
Less: allowance for uncollectible accounts		(10,803)			(10,803)
Net receivables	<u>\$ 97,709</u>	<u>\$ 57,002</u>	<u>\$ 6,877</u>	<u>\$ 5,815</u>	<u>\$ 167,403</u>

14. **INTERFUND BALANCES AND TRANSFERS**

Internal Balances – Included in Due to/Due from balances on the financial statements are individual fund receivables and payable balances at June 30, 2006 as follows:

	<u>DUE FROM OTHER FUNDS</u>	<u>DUE TO OTHER FUNDS</u>
Perpetual Care Fund	\$ 17,000	
Building Authority Fund		\$ 17,000
Total internal balances	<u>\$ 17,000</u>	<u>\$ 17,000</u>

14. **INTERFUND BALANCES AND TRANSFERS (Continued)**

Transfers – Interfund transfers during the year ended June 30, 2006 were as follows:

TRANSFERS IN	TRANSFERS OUT		
	GENERAL FUND	CAPITAL PROJECTS FUND	TOTAL
Other Governmental:			
Debt Service	\$ 158,700		\$ 158,700
Capital Projects	31,300		31,300
Cemetery Fund	5,000		5,000
Enterprise:			
Building Authority		\$ 76,885	76,885
Recreation	8,000		8,000
Totals	<u>\$ 203,000</u>	<u>\$ 76,885</u>	<u>\$ 279,885</u>

15. **WELLINGTON CANAL COMPANY PAYMENT**

In 1997, Wellington City and Wellington Canal Company desired to install and operate a secondary water system to benefit the residents of Wellington City and shareholders of the Wellington Canal Company. To accomplish the desire, Wellington Canal Company has received a \$3.935 million dollar grant and Wellington City received a \$500,000 grant and borrowed \$1.7 million dollars from the Utah Division of Water Resources. On February 2, 1998, Wellington City and Wellington Canal Company amended their original agreement. One of the elements of this amendment is that Wellington Canal Company agreed to pay Wellington City \$38,300 annually to pay part of the \$1.7 million dollar loan received from the Utah Division of Water Resources. These payments will continue for 20 years, which will be for the duration of the loan.

16. **OPERATING LEASE**

The City has entered into an operating lease with the Head Start Program for building and office space. On May 1, 1998, the Head Start Program (the Program) signed a lease agreement with the City to lease space at the cost of \$2,100 per month. The lease period started on May 1, 1998 and continues for ten years.

17. **BOND COVENANTS**

Over the past several years the City has issued revenue and lease revenue bonds to the Utah Board of Water Resources and to the State of Utah, Division of Finance. Included in the bond agreements were covenants made by the City, to set up bond sinking and reserve funds. These sinking and reserve funds were to receive monthly or quarterly deposits and were to grow to amounts so indicated in bond agreements. As of June 30, 2006, the City has not been making the required payments into these reserve and sinking funds.

WELLINGTON CITY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u>	<u>WITH</u>
				<u>FINAL BUDGET</u>
				<u>FAVORABLE</u>
				<u>(UNFAVORABLE)</u>
REVENUES:				
Taxes:				
Property taxes	\$ 110,000	\$ 112,400	\$ 108,245	\$ (4,155)
General sales and use tax	233,000	280,000	310,018	30,018
Franchise tax	97,500	147,800	150,331	2,531
Highway tax	55,000	75,000	84,104	9,104
Licenses and permits	7,100	7,500	7,633	133
Intergovernmental	74,400	69,300	67,889	(1,411)
Charges for services	25,300	25,000	27,243	2,243
Fines and forfeitures	116,300	124,700	118,206	(6,494)
Investment earnings	1,000			
Miscellaneous revenue	6,000	4,400	5,460	1,060
Total revenues	\$ 725,600	\$ 846,100	\$ 879,129	\$ 33,029
EXPENDITURES:				
Current:				
General government:				
City Council	\$ 11,400	\$ 11,700	\$ 11,444	\$ 256
City Court	55,300	56,700	55,249	1,451
Recorder	59,100	60,100	58,832	1,268
Treasurer	12,500	10,200	9,450	750
Elections	2,300	1,300	1,232	68
Non-departmental	17,500	23,600	21,584	2,016
City Hall and buildings	53,700	59,600	59,538	62
Total general government	\$ 211,800	\$ 223,200	\$ 217,329	\$ 5,871
Public safety:				
Police	\$ 241,700	\$ 263,000	\$ 260,925	\$ 2,075
Fire	47,200	58,900	52,998	5,902
Traffic safety		3,000	2,618	382
Total public safety	\$ 288,900	\$ 324,900	\$ 316,541	\$ 8,359

WELLINGTON CITY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	BUDGET AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		
Highways and public improvements:				
Highways - general	\$ 11,000	\$ 11,500	\$ 11,459	\$ 41
Class "C" roads	21,500	45,400	42,035	3,365
Total highways and public improvements	\$ 32,500	\$ 56,900	\$ 53,494	\$ 3,406
Parks, recreation, and public property:				
Parks	\$ 15,900	\$ 35,300	\$ 33,194	\$ 2,106
Library	2,800	2,800		2,800
Total parks, recreation and public property	\$ 18,700	\$ 38,100	\$ 33,194	\$ 4,906
Economic development:				
Economic development	\$ 2,000			
Total economic development	\$ 2,000	\$...	\$...	\$...
Total expenditures	\$ 553,900	\$ 643,100	\$ 620,558	\$ 22,542
Excess of revenue over (under) expenditures	\$ 171,700	\$ 203,000	\$ 258,571	\$ 55,571
OTHER FINANCING SOURCES (USES):				
Transfers out	\$ (171,700)	\$ (203,000)	\$ (203,000)	
Total other financing sources (uses)	\$ (171,700)	\$ (203,000)	\$ (203,000)	\$...
Excess of revenues and other sources over (under) expenditures and other uses			\$ 55,571	\$ 55,571
Fund balances - beginning of year	\$ 116,633	\$ 116,633	116,633	
Fund balances - end of year	\$ 116,633	\$ 116,633	\$ 172,204	\$ 55,571

**WELLINGTON CITY
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006**

	PERMANENT FUNDS	SPECIAL REVENUE FUNDS	
	PERPETUAL CARE FUND	REDEVELOP- MENT AGENCY	TOTAL NONMAJOR GOVERNMENTAL FUNDS
<u>ASSETS</u>			
Cash restricted		\$ 7,559	\$ 7,559
Due from other funds	\$ 17,000		17,000
Total assets	<u>\$ 17,000</u>	<u>\$ 7,559</u>	<u>\$ 24,559</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Cash deficit	\$ 16,363		\$ 16,363
Accounts payable	517		517
Total liabilities	<u>\$ 16,880</u>	<u>\$...</u>	<u>\$ 16,880</u>
Fund balances:			
Reserved, reported in:			
Special revenue funds		\$ 7,559	\$ 7,559
Permanent funds	\$ 120		120
Total fund balances	<u>\$ 120</u>	<u>\$ 7,559</u>	<u>\$ 7,679</u>
Total liabilities and fund balance	<u>\$ 17,000</u>	<u>\$ 7,559</u>	<u>\$ 24,559</u>

WELLINGTON CITY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	PERMANENT FUNDS	SPECIAL REVENUE FUNDS	
	PERPETUAL CARE FUND	REDEVELOP- MENT AGENCY	TOTAL NONMAJOR GOVERNMENTAL FUNDS
REVENUES:			
Charges for services	\$ 5,870		\$ 5,870
Investment earnings	498		498
Total revenues	\$ 6,368	\$...	\$ 6,368
EXPENDITURES:			
Parks, recreation, and public property	\$ 12,762		\$ 12,762
Total expenditures	\$ 12,762	\$...	\$ 12,762
Excess of revenues over (under) expenditures	\$ (6,394)	\$...	\$ (6,394)
Other financing sources (uses):			
Transfers in	\$ 5,000		\$ 5,000
Total other financing sources (uses)	\$ 5,000	\$...	\$ 5,000
Excess of revenues and other sources over (under) expenditures and other uses	\$ (1,394)	\$...	\$ (1,394)
Fund Balances - Beginning of year	1,514	7,559	9,073
Fund Balances - End of year	\$ 120	\$ 7,559	\$ 7,679

WELLINGTON CITY
COMBINING STATEMENT OF NET ASSETS -
NONMAJOR PROPRIETARY FUNDS
JUNE 30, 2006

	NON-MAJOR BTA'S - ENTERPRISE FUNDS		
	SANITATION FUND	RECREATION FUND	TOTAL NONMAJOR BTA'S
<u>ASSETS</u>			
Current assets:			
Cash	\$ 13,536	\$ 4,028	\$ 17,564
Receivables - net miscellaneous	5,815		5,815
Total current assets	\$ 19,351	\$ 4,028	\$ 23,379
Total assets	\$ 19,351	\$ 4,028	\$ 23,379
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	\$ 4,524		\$ 4,524
Total current liabilities	\$ 4,524	\$...	\$ 4,524
Total liabilities	\$ 4,524	\$...	\$ 4,524
Net Assets:			
Unrestricted	\$ 14,827	\$ 4,028	\$ 18,855
Total net assets	\$ 14,827	\$ 4,028	\$ 18,855

WELLINGTON CITY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND NET ASSETS -
NONMAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	NON-MAJOR BTA'S - ENTERPRISE FUNDS		
	SANITATION FUND	RECREATION FUND	TOTAL NONMAJOR BTA'S
Operating revenues:			
Charges for sales and services	\$ 55,714	\$ 2,036	\$ 57,750
Total operating revenues	\$ 55,714	\$ 2,036	\$ 57,750
Operating expenses:			
Contractual services	\$ 53,124	\$ 7,425	\$ 60,549
Total operating expenses	\$ 53,124	\$ 7,425	\$ 60,549
OPERATING INCOME (LOSS)	\$ 2,590	\$ (5,389)	\$ (2,799)
Income (loss) before contributions and transfers	\$ 2,590	\$ (5,389)	\$ (2,799)
Transfers In (Out):			
Transfers in		\$ 8,000	\$ 8,000
Total transfers in (out)	\$...	\$ 8,000	\$ 8,000
Change in net assets	\$ 2,590	\$ 2,611	\$ 5,201
Total net assets - beginning of year	12,237	1,417	13,654
Total net assets - end of year	\$ 14,827	\$ 4,028	\$ 18,855

SMUIN, RICH & MARSING

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MEMBERS

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Honorable Mayor and Members of the City Council
Wellington City
Wellington, Utah 84542

RE: Report on Compliance and on Internal
Control Over Financial Reporting Based
on an Audit of Financial Statements Per-
formed in Accordance With Government
Auditing Standards

We have audited the financial statements of Wellington City as of and for the year ended June 30, 2006, and have issued our report thereon dated November 13, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance and Other Matters

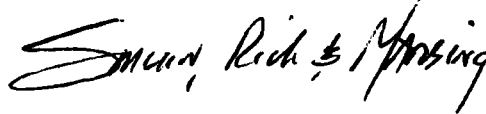
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, City Council and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

SMUIN, RICH & MARSING

A handwritten signature in black ink, appearing to read "SMUIN, RICH & MARSING", written in a cursive, stylized script.

Price, Utah

November 13, 2006

SMUIN, RICH & MARSING

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Honorable Mayor and Members of the City Council
Wellington City
Wellington, Utah 84542

RE: Auditors' Report on State Compliance
for State Grants

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Wellington City for the year ended June 30, 2006 and have issued our report thereon dated November 13, 2006. As part of our audit, we have audited the City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. The City received the following major State assistance programs from the State of Utah:

Class "C" Road (Utah Department of Transportation)
Liquor Law Enforcement (State Tax Commission)

The City also received the following nonmajor grants, which are not required to be audited for specific compliance requirements. However, these programs were subject to test work as part of the audit of the City's financial statements.

Police Vest Grant (Utah Department of Public Safety)
Police Grants (Utah Department of Public Safety)
CIB Grant (Department of Community and Economic Development)
UDOT Grant (Utah Department of Transportation)

Our audit also included testwork on the City's compliance with those general compliance requirements identified in the Compliance Manual for Audits of Local Governments in Utah including:

Public Debt	Budgetary Compliance
Cash Management	Truth in Taxation and
Purchasing Requirements	Property Tax Limitation
Justice Courts	Uniform Building Code Standards
Other Compliance Requirements	Asset Forfeitures
Liquor Law Enforcement	B & C Road Funds

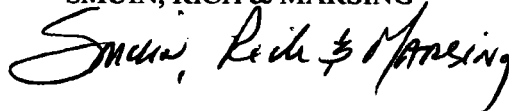
The management of Wellington City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Wellington City, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to its major State assistance program for the year ended June 30, 2006.

SMUIN, RICH & MARSING

A handwritten signature in cursive script that reads "Smuin, Rich & Marsing".

Price, Utah

November 13, 2006

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Honorable Mayor and Members of the City Council
Wellington City
Wellington, Utah 84542

Ladies/Gentlemen:

The following comments and recommendations are a result of our review of the accounting procedures and internal controls in connection with our examination of the financial statements of Wellington City for the year ended June 30, 2006.

Since our review was made primarily to determine the scope of our auditing procedures and was not intended as a comprehensive study or evaluation of the systems and procedures, this memorandum should not be considered all-inclusive.

Bond Covenants

Over the past several years the City has issued revenue and lease revenue bonds to the Utah Board of Water Resources and to the State of Utah, Division of Finance. Included in the bond agreements were covenants made by the City. One of the provisions the City stipulated to was to set up bond sinking funds and bond reserve funds. These sinking and reserve funds were to receive monthly or quarterly deposits and were to grow to designated amounts. As of June 30, 2006, the City has not complied with the provisions to accumulate reserve funds as required by bond agreements.

We recommend the City make the necessary adjustments to the rates they charge for services so funds can be generated and deposited in the required sinking and reserve funds to meet bond covenants.

Segregation of Duties

Inherent with the size of the City's office staff, it is more difficult to segregate duties. Members of the staff have access to both the cash and the related accounting records and to all phases of transactions. For internal controls to be effective, there needs to be a separation between the recording, receipting, and reconciliation of cash.

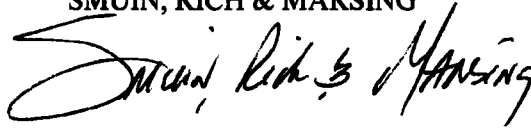
We recommend that the City segregate the receipting, recording and reconciliation of transactions as much as possible.

SUMMARY

We feel the State Compliance issues and accounting related items mentioned above are some areas where the City can make changes so as to further improve its internal control structure to safeguard the assets, check the accuracy and reliability of accounting data and promote operating efficiency.

Sincerely,

SMUIN, RICH & MARSING

A handwritten signature in cursive script that reads "SMUIN, RICH & MARSING". The signature is written in dark ink and is positioned below the printed name.

Price, Utah

November 13, 2006